



# Sales Tax Newsletter

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## **IMPORTANT TAX CHANGES for Sales of Used Farm Machinery and All Repair Parts**

Currently the sales tax rate on used farm machinery and all farm machinery repair parts used exclusively for agricultural purposes is 1½ percent. Beginning July 1, 2002, they will be exempt.

Effective July 1, 2002, the sale, lease or rental of used farm machinery, used farm machinery attachments, used farm irrigation equipment, and all farm machinery repair parts (except tires) used exclusively for agricultural purposes will become exempt from state and local sales taxes. New farm machinery, new attachments, and new irrigation equipment will continue to be taxed at the 3 percent state sales tax rate plus applicable local sales tax.

To be regarded as “used” farm machinery, it must meet one of the following:

- was subject to North Dakota sales tax on a previous sales;
- was originally purchased outside this state and previously owned by a farmer; or
- has been under lease or rental for three or more years.

Farm machinery not meeting one of these standards is regarded as new farm machinery subject to the 3 percent sales tax rate.

Farm machinery repair parts include any durable goods (except tires) used to repair qualifying farm machinery. Durable goods do not include fluids, gases, oils, greases, lubricants, paints, and waxes. All farm supplies, ranch supplies, and farm machinery accessories will remain subject to the 5 percent general sales and use tax rate, including such items as tools, lumber, twine, fencing material, storage tanks and grain storage bins.

For additional information, see the Sales and Use Tax Guideline for *Farm Machinery & Farm Irrigation Equipment* on our web site or contact our office. ☼

## **PERMIT HOLDERS REQUIRED TO FILE MONTHLY**

Under North Dakota sales and use tax laws, all permit holders that report \$333,000 of taxable sales and purchases in the previous calendar year must file monthly sales tax returns. Permit holders that are required to file monthly under this provision of the law are eligible for compensation of 1½ percent of the state tax due with the return up to a maximum of \$85 a month. The law does not provide for compensation to permit holders that do not meet the \$333,000 threshold.

In May of each year, our office calculates the amount of taxable sales and purchases reported by each permit holder for the previous calendar year. Based on these calculations, we notify all permit holders regarding any change in filing frequency that is required under law. The change may be from quarterly to monthly or vice versa depending on the volume of taxable sales and purchases reported during the previous two years. Changes in filing frequency based on the volume of taxable sales and purchases reported are effective for tax periods beginning July 1. This year's notices were mailed on June 3, 2002. If you have any questions regarding your filing frequency or eligibility for compensation, please contact our office. ☼

## **NEW SALES TAX FORMS**

The Tax Commissioner's office has redesigned the North Dakota S1 and S2 sales tax returns. The new forms will be in place beginning with the July 2002 monthly returns. If you file quarterly sales tax returns, your first look at

## NEW SALES TAX FORMS - Continued

the new return will be in late September when the Tax Commissioner's Office mails out preprinted returns for the third quarter of 2002. The redesigned return is called Form ST and it replaces both the existing S1 and S2 returns, which will no longer be available for periods ending after June 30, 2002.

The new Form ST better fits our current processing method, which uses scanning and image-processing equipment. Using the latest in technology, our equipment will make an image of your return, process the data on it, and store it electronically rather than in a paper format.

The new Form ST contains the same lines of information as the previous S1 and S2 versions; however, the redesigned form has the following three major changes from the older version: (1) the lines of information are in a different order and will be printed on both the front and back sides of the form, (2) the name and tax code for each local tax you have reported in the past year will be preprinted on each return if you have reported ten or less different local taxes in the past year, and (3) each return will be customized to include one or two columns depending on how many sales tax rates you need to report.

The sales tax returns you have been using come in two different formats: S1 or S2. The main difference between the two formats is the additional line on the S2 return that allows compensation to be calculated and deducted from the amount of state tax due with the return (See article above: *Permit Holders Required to File Monthly*). Compensation will be calculated on line 23 of the new Form ST. For permit holders that do not qualify for compensation, the compensation field will contain Xs.

The new Form ST also has two different formats. But, both formats are called Form ST and the only difference between the two formats is the number of columns for reporting sales. Permit holders that collect and remit tax at two different rates will receive a return with two columns. Permit holders that collect (or remit) tax only at the state's 5 percent general tax rate will receive a return with just one column. After June 30, 2002, all products will be taxed at 5 percent except the following: natural gas – 2 percent; new farm machinery, new irrigation equipment, and new mobile homes – 3 percent; and alcoholic beverages 7 percent. Only permit holders reporting taxable sales or purchases at a rate other than 5 percent will receive a two-column sales tax return.

The new Form ST will contain a section on the second page to report local option taxes. For permit holders that have previously reported local tax, up to ten city or county names and the corresponding tax codes will be preprinted in the local option tax section of the return. The names of the cities and counties will be based on local tax reported during the past year. Permit holders that need to report more than ten local taxes will complete and submit as part of the return a separate local option tax schedule, which will be called ST-Local on the redesigned form.

**As always, our office will mail a taxpayer copy that includes complete instructions along with a customized preprinted form to each permit holder that files paper sales tax returns. The redesigned paper returns will not affect the WebFile system at this time. All permit holders registered to file their sales tax returns electronically over the Internet should continue to file electronically in the same manner. If you currently file on paper, but are interested in filing electronically, you will find more information about our WebFile system and a registration form on our website at [ndtaxdepartment.com](http://ndtaxdepartment.com).** ●

## HETTINGER IMPOSES USE TAX

On July 1, 1996, the City of Hettinger imposed a 1 percent city sales tax. The city recently amended its tax ordinance to include a use tax effective July 1, 2002. Before imposition of the use tax, only sales made in the city by retailers located within the city limits of Hettinger were subject to tax. Effective July 1, 2002, sales delivered into the city of Hettinger by a retailer located outside of the city will also be subject to tax. In addition, property brought into the city by businesses or residents for storage, use, or consumption within the city limits will be subject to the 1 percent use tax if the property has not been subjected to another city's local tax. ●

## CELLULAR MOBILE TELECOMMUNICATION SERVICE

A mobile telecommunications company that provides communication services to retail consumers shall use the location of the customer's "place of primary use" for the purpose of determining whether tax is due on services charged to the customer. "Place of primary use" means the street address representative of where the customer's use of the mobile telecommunications service primarily occurs, which must be the residential street address or the primary business street address of the customer and within the licensed service area of the home service provider. ●